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FINANCIAL DIGEST

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RECESSION'S END NOT YET VISIBLE

The apparent stabilization of the economy in the third quarter on the heels of the second quarter's 2.3 per cent rate of decline has led some analysts to conclude that the recession has been canceled—or at the very least, postponed. To quote from the old Gershwin tune, "It ain't necessarily so."

First of all, this stability was anticipated nearly two months ago (Financial Digest—August 13, 1979) on the basis of improved gasoline supplies enabling people to make purchases and do other things they felt unable to do in the second quarter. In other words—a good deal of the apparent strength in the third quarter traced to sales that would have taken place in the second but did not because of the gasoline crunch. Under these circumstances, the trend of the economy would seem to be better measured by averaging the second and the third quarters—an exercise that produces a GNP below the first quarter.

Of course, whether or not the current lull in the economy is officially declared a recession will also depend on trends in the fourth quarter, which gets underway today. From here, it would seem that a resumption of the second quarter's decline is likely. Output should fall during the fourth quarter since in many lines of business, inventories remain high relative to sales. What is more, stocks are likely to get further out of line with sales. Consumer purchasing power measured over a 12-month basis, is declining and will fall further as a growing number of people lose their jobs on account of the production cutbacks, and higher heating oil bills begin to eat into their incomes. If this is enough to depress the fourth quarter's real GNP, then 1979 could still go down as a year of recession—even if the third quarter's real GNP turns out to have risen a bit.

In their haste to define a recession for their readers, the general press has described it as a two-quarter contraction in the real GNP. However, there was one officially-designated recession of those that occurred in the postwar era where this was not the case. The 1969-70 recession saw the real GNP fall in the first quarter of 1970, rise in the second and third, and fall in the fourth. Yet, the National Bureau of Economic Research declared the entire period from fourth-quarter 1969 through fourth-quarter 1970 a recession.

SOME GOOD NEWS ON INFLATION

Looking at the consumer price index, it is very easy to get upset over the current rate of inflation. August's 1.1 per cent jump marks the seventh consecutive monthly increase of one per cent or more. Regardless of what happens over the remaining four months of this year, 1979's first eight months will go down in the record books as having the worst rate of inflation for *any* eight-month period in at least 32 years.

However, an examination of the fastest-rising components of the consumer price index, along with the way the index is put together, suggests that the current rate of consumer price inflation, while bad, is not as bad as it looks. For one thing, the CPI appears to overstate the cost of homeownership. This is because the CPI takes into account only new mortgages in its calculations, even though most families pay much lower interest rates. The average rate on all outstanding mortgages for the first half of this year was 8.7 per cent—while on new mortgages the rate was 10.4 per cent.

The CPI also does not take into account changes in relative patterns of consumption. For instance, if meat prices rise and fish prices fall, consumers will buy more fish and less meat, thereby blunting the effect of rising meat prices on their budgets. And consumers are clearly using energy more efficiently today than they did in 1972—when current consumption weights for energy use in the CPI were established. The gross national product price deflator for personal consumption expenditures does reflect these changing patterns of consumption as they occur. This index rose at a 9¾ per cent rate in first-half 1979, while the CPI rose at a 13 per cent clip.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

	Week Ending 9/26/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123,372	+2,400	+ 702
Member Bank Borrowings	1,161	— 602	— 375
Float	5,219	—1,429	+ 1,811
Total Reserve Bank Credit	134,244	+ 295	+ 1,852
Treasury Deposits with Federal Reserve Banks	4,553	+1,084	—10,876
Currency Outside Banks	107,813	—1,254	+ 9,992
Member Bank Reserves:			
Required	41,522	+ 811	+ 3,304
Excess (Deficiency)	149	— 264	— 74
Total Reserves Held	41,671	+ 547	+ 3,230
Net Borrowed Reserves	832	— 311	— 325
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	81,981	— 307	— 3,431
		r-Revised	
	9/19/79		
Money Supply ($ Bil., SA) M1	377.1	— 1.0	+4.8%
Money Supply ($ Bil., SA) M2	931.2	— 0.1	+7.6%

NEW YORK MONEY MARKET

Offering Rates 9/28/79	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.25%	10.29%	9.92%
*Federal Agencies	11.40	11.03	11.25
*Project Notes—Tax Free (46% Taxable Equivalent)	9.62	9.63	8.52
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	12.00	12.25	

‡Finance Company Paper—Prime

5- 14 days	11.00%
15- 29 days	11.50
30- 59 days	11-50
60-179 days	11.25
180-270 days	10.38

‡*Bankers' Acceptances

Oct.	11.55%
Nov.	11.55
Dec.	11.60
Jan.	11.60
Feb.	11.45
Mar.	11.45

‡Industrial Paper—Prime

30- 79 days	11.60%
90-120 days	11.70

†Federal Funds Effective Rate 12.20%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'79	$ 2,330	$ 2,292	$ 2,088
Gross National Product (1972 Dollars)*	2nd Q'79	$ 1,422	$ 1,431	$ 1,383
Percent Change, Annual Rate	2nd Q'79	—2.3%	1.1%	8.7%
Change in Consumer Prices (all urban consumers)*	Aug. '79n	13.2%	12.0%	7.2%
Change in Producer Prices*	Aug. '79	14.4%	13.2%	3.6%
Civilian Employment (Thousands of Persons)†	Aug. '79	96,900	97,210	94,723
Unemployment as % of Civilian Labor Force†	Aug. '79	6.0%	5.7%	5.9%
Personal Income*	Aug. '79	$ 1,938	$ 1,930	$ 1,741
Leading Indicators Composite Index (1967=100)†	July '79	139.3	139.8	141.2
Industrial Production Index (1967=100)†	Aug. '79	150.9	152.6	148.0
Net Change in Consumer Instalment Credit†	July '79	$ 2.44	$ 2.56	$ 3.47
U.S. Merchandise Trade Balance†	Aug. '79n	—$ 2.36	—$ 1.11	—$ 1.84
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Aug. '79	1,783	1,791	2,004
New Construction Expenditures*	July '79	$ 230.0	$ 224.5	$ 212.8
Total Business Inventories†	July '79	$ 413.8	$ 406.0	$ 363.0
Total Business Sales†	July '79	$ 287.5	$ 283.4	$ 252.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (9/19/79)	86,810	+1,104	— 1,166
New York City (9/26/79)	18,090	+ 257	— 6,527
Commercial Paper (9/19/79)	103,959	+ 362	+29,349

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/79)	152,016	+1,728	+24,886
New York City (9/26/79)	45,136	+ 17	+ 8,322

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/79)	387,358	+3,330	+63,685
New York City (9/26/79)	86,829	—2,275	+12,826

SECURITY MARKETS

	Friday 9/28/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	10.06%	— .06	+ 2.09
180-Day Bills (Discount Basis)	10.08	— .02	+ 1.76
Longest Bills (Discount Basis)	9.86	+ .05	+ 1.68
9⅝s 8/31/81	99.7	— 4/32	
8⅞s 6/30/83	97.25	— 7/32	
9¼s 5/15/89	98.31	— 33/32	
8¾s 8/15/94	94.26	— 44/32	
9⅛s 5/15/09	98.29	— 37/32	
Municipals:			
Bond Buyer—20 Bond Index* (9/28/79)	6.56%	— .01	+ .47
Blue List Total ($ Million)	$ 753	—$ 64	+$ 68
30-Day Visible Supply ($ Million)	$2,461	+$ 653	+$ 711
Total	$3,214	+$ 589	+$ 779
Corporates:			
Moody's Aa Composite (9/28/79)	9.83%	+ .08	+ .85
Money Mgr.—30-Day Supply ($ Million)	$3,171	+$1,141	+$1,493
Stocks:			
Dow-Jones Averages			
Industrials	878.67	— 15.27	+ 12.85
Transportation	260.47	— 4.72	+ 16.36
Utilities	106.90	+ 0.61	+ 0.78
65 Stocks	308.88	— 4.24	+ 5.43
Standard and Poor's 500 Stocks	109.32	— 1.25	+ 6.78
N.Y.S.E. Composite Index	62.27	— 0.59	+ 4.49
N.Y.S.E. Avg. Daily Vol. for Week (000's)	32,984	— 8,908	+ 8,242

*46% Taxable Equivalent 12.15%

INTERNATIONAL RATES

	Friday 9/28/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.75%	11.50%
1 month	12.25	12.25
3 months	11.19	12.19
6 months	12.88	12.82
1 year	12.75	12.32
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	10.27%	10.15%
Long Term (10 to 15 yrs.)	10.17	10.10
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03549	.03514
Canada	.8616	.8562
France	.2439	.2405
Germany	.5730	.5670
Italy	.001244	.001241
Japan	.004467	.004518
Mexico	.04389	.04389
Netherlands	.5169	.5149
Switzerland	.6441	.6365
U.K.	2.1987	2.1698